NOVA SCOTIA FISHERIES AND AQUACULTURE LOAN BOARD

ANNUAL ACCOUNTABILITY REPORT

FISCAL YEAR 2013-2014

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TABLE OF CONTENTS

Accountability Statement 3

Chief Executive Officer's Report.....5

Overview 6

Core Priority Areas Progress and Accomplishments 7

Financial Results 8

Performance Measures 9

Attachment - Nova Scotia Fisheries & Aquaculture Loan Board Financial Statements

ACCOUNTABILITY STATEMENT

We have the honour of presenting the Annual Report of Nova Scotia Fisheries and Aquaculture Loan Board for the fiscal year ending March 31, 2014.

This report incorporates accountability reporting of the Nova Scotia Fisheries and Aquaculture Loan Board for the year ended March 31, 2014 and is prepared pursuant to Section 41 of the *Fisheries and Coastal Resources Act, 1996*, as well as the *Provincial Finance Act* and government policies and guidelines. These authorities require the reporting of outcomes against the Nova Scotia Fisheries and Aquaculture Loan Board Business Plan information for the fiscal year 2013-2014. The reporting of the Nova Scotia Fisheries and Aquaculture Loan Board outcomes includes estimates, judgements and opinions by Loan Board management.

The Department of Fisheries and Aquaculture acknowledges that this accountability report is the responsibility of the Nova Scotia Fisheries and Aquaculture Loan Board. The report is, to the best extent possible, a complete and accurate representation of outcomes relative to the goals and priorities set out in the Nova Scotia Fisheries and Aquaculture Loan Board 2013-2014 Business Plan.

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Keith Colwell

Minister, Department of Fisheries and Aquaculture

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Roy Surette

Chairman of the Board

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Derrick Brooks

Chief Executive Officer

BOARD MEMBERS as at March 31, 2014

Mr. Roy Surette	Board Chair
Mr. Edmond Aucoin	Member, Board
Mr. Jerry Amirault	Member, Audit Committee Chair
Mr. Peter Burnie	Member, Board and Audit Committee

PRINCIPAL OFFICERS AND STAFF as at March 31, 2014

Derrick Brooks	Chief Executive Officer
William Laurence, Department of Justice	Solicitor to Board
PricewaterhouseCoopers LLP	Auditor
Greg Cox	Risk Manager
Maria McCurdy	Loans Manager
Neil Pardy	Senior Loans Officer
Glenda Conley	Loans Officer
Tracy Hart	Loans Administrator
Jacqueline Dalrymple	Secretary
Vernon Shea	Vessel Inspector
Bernie Stockley	Vessel Inspector
Vicki Dimick, Department of Finance	Director of Finance and Accounting
Christine Dib-Kahil, Department of Finance	Financial Services Officer
Jillian Sinclair, Department of Finance	Accounting Clerk

CHIEF EXECUTIVE OFFICER'S REPORT

It is an extremely exciting time to have the distinct honour of serving as Chief Executive Officer of Nova Scotia Fisheries and Aquaculture Loan Board. The spotlight is clearly shining on these vital and venerable sectors of our rural and provincial communities. The *Report of the Nova Scotia Commission on Building Our New Economy* cites 'renewing rural industries,' such as the fisheries and aquaculture industries, as a 'game changer' in the development of the new economy. Nova Scotia Fisheries and Aquaculture Loan Board is keenly engaged in this conversation and well-positioned to contribute in an appropriate and meaningful to the necessary renewal and change.

We are proud to be the only financial institution in the province that serves these sectors, exclusively. As such, we maintain an in-depth understanding of the business climate in which fisheries and aquaculture businesses operate and we use this unique understanding to support the realization of these industries' growth and development potential, one customer at a time.

Nova Scotia Fisheries and Aquaculture Loan Board's commitment to these industries, and our customers, has been demonstrated time and time again, in both prosperous and challenging times – and we will remain committed to enhancing rural Nova Scotia by providing specialized business and financial products and services adapted to the unique needs of the province's fishers and aquaculture industries, including the next generation of fishers and aquaculturists.

We believe the fisheries and aquaculture industries in this province are on the cusp of radical, positive change that will propel them to new heights, forever cementing their reputations - as innovative, industries working together to effectively and efficiently produce and market products of the highest quality, both at home and abroad – not only in the minds of Nova Scotians but of the world. This reputation will continue to make them an employer of choice to future generations of entrepreneurs and workforces.

As noted in the *Report of the Nova Scotia Commission on Building Our New Economy*, these industries are not only players in the province's economies and communities, they will be the catalyst for positive change. As such, the need for an enduring, committed and stable financial partner has never been more apparent - Nova Scotia Fisheries and Aquaculture Loan Board will continue to work to ensure these needs are met.

Nova Scotia Fisheries and Aquaculture Loan Board is very proud to work with and serve the fishers and aquaculturists of this province. These industries are near and dear to all of us here at the 'Loan Board' and we understand the important role they play in our province's economy and in making Nova Scotia home – *Our Home* - the home we all know and love.

The province's fishers and aquaculturists are the boats on this province's coasts. We have provided financial support to past generations of fishers and aquaculturists, and we want to ensure these industries have the financial support required to ensure that the boats on this province's coasts continue to occupy the vast landscapes of our minds' eyes for generations to come.

Derrick Brooks
Chief Executive Officer
Nova Scotia Fisheries and Aquaculture Loan Board

BOARD OPERATION OVERVIEW

During its 77th year of operation the Board of Directors met on thirteen occasions. Ninety-nine requests were approved for funding during the 2013-2014 fiscal year. A total of 805 active loans were in effect at March 31, 2014.

Interest rates at year-end were 6.48%.

Fishing Vessel Loans

The Board provides loans for, the construction of new and the purchase of used, fishing vessels as well as for vessel modifications and upgrades. A total of fifty-one fishing vessel loans totaling $8,457,757 were approved under this program in 2013-2014. At year-end vessel loans accounted for 68.2% of the Board's impaired loans ($4,839,919).

While lending and credit staff are responsible for administrative detail with respect to receiving applications, preparing applications, disbursing funds and maintaining loans records, the Board's vessel inspectors are responsible for ensuring adequate vessel appraisals are conducted and documented.

Fishing License Loans

The Board provides loans for the purchase of fishing licenses which support succession and diversification within the fish harvesting sector. A total of thirty-four fishing license loans totaling $8,633,050 were approved under this program in 2013-2014. At year-end fishing license loans accounted for 19.1% of the Board's impaired loans ($3,396,104).

Aquaculture Loans

The Board provides loans to aquaculture operators for the purchase of seedstock, gear and equipment. A total of fourteen aquaculture loans totaling $1,887,252 were approved under this program in 2013-2014. At year-end aquaculture loans currently accounted for 12.7% of the Board's impaired loans ($1,205,055).

RESULT – Progress and Accomplishments

Priority: Lending
Provide up to $35 million of new loan capital to the fisheries and aquaculture industry in the 2013-2014 fiscal year.

Result:
99 loan applications were approved during the year with total funds advanced of $18.3 million. Principal repayments were $17.4 million with an additional $0.093 million of principal written off. Interest rates continued to be low and credit availability from other lenders remained strong. Loan advances were below the maximum $35 million authorized. Long term lending needs appear to have been met and the Loans for Licenses program implemented in 2009 continues to be of significant interest and benefit.

Priority: Risk Management
Lending will be directed toward viable enterprises and projects providing acceptable security to support the loan.

Result:
A Risk Manager position was permanently added to the staff complement in 2013-2014. This has significantly strengthened risk assessment processes and reduced exposure. Every request for funding received is assessed for credit risk and worthiness based on common industry standards and measures. All loans provided are appropriately and adequately secured to mitigate potential risk and exposure.

Priority: Confidential Credit Counseling
The board will provide credit counseling and follow-up for clients with repayment difficulties.

Result:
Lending staff and senior officials met with clients to discuss lending needs, to assist in establishing strategies to assist clients in improving their financial positions and provided other financial counseling as required on a case-by-case basis and to groups.

Priority: Support for New Fishers and Aquaculturists
The board will provide advice and guidance to new entrants by working with other staff and programs of the department and by funding projects with viable business plans but limited experience.

Result:
Opportunities to enter and diversify within the fisheries and aquaculture industry were facilitated with loans. Special incentives are available through several programs to those who qualify as new entrants.

Actual/Budget Comparison – Loan Operating

Description	2013-2014 Actual ($000)	2013-2014 Budget ($000)	Change
Interest revenue	6,933	7,800	(867)
Loan processing and other fees	161	150	11
Total revenue	7,094	7,950	(856)
Interest expense	4,573	4,600	(27)
Operating expenses	806	840	(34)
Total expenses	5,379	5,440	(61)
Income before distribution to the General Revenue Fund of the Province	1,715	2,510	(795)
Distribution to the General Revenue Fund of the Province	(1,715)	(2,510)	795
Net Income	0	0	0

Measuring Our Performance

The following sections provide results of performance measures identified in the Board's Business Plan for 2013-2014.

CORE BUSINESS AREA: Lending

This is the primary focus of the Board. Although lending activities address all of the strategic goals, lending most directly influences and impacts access to stable, cost-effective, long-term developmental credit. The following measures provide an indication of the Board's success in pursuit of this goal:

MEASURES:

I) ***Loan advances and approvals*** measure demand for and accessibility of the developmental credit.

Target: Increase annual advances and approvals. The amount of loans advanced in 2013-14 was $18,319,436 million, an increase of $2,448,126 (15%) from 2012-2013 advances of $15,871,310 million.

II) ***Net Income*** measures the Board's efficiency and effectiveness in delivering developmental credit.

Target: Maintain a significant positive net income, while implementing heightened assessment of risk to the Board's investments. The Board's net income in 2013-2014 was $1,715,000, an increase of $1,193,000 (228%) over 2012-2013. This demonstrates the Board's ability to enhance efficiencies and effectiveness while incorporating more stringent risk assessment and management protocols.

III) **Overall Client Success** – The ability of clients to meet their debt obligations is considered a sign of positive indication of business strength. As a result, arrears as a percentage of the value of all accounts, provides a measure of client business health.

Percentage of accounts in arrears provides an indication of overall client success. It is also indicative of the effectiveness of the Board's policies and procedures for recognizing and assisting clients in financial difficulty. Arrears measured at year-end.

Interpretation of this measure requires balance as strict limitation of arrears conflicts with the Board's intent to act as a developmental lender.

Target: Maintain the total percentage of accounts in arrears below 3%. At March 31, 2014, 4.1% of accounts were in arrears compared with 4.0% on March 31, 2013. This is consistent with the prior year and above the target. The amount of principal in arrears decreased from $5,577,998 million at December 31, 2013 to $4,535,649 million at March 31, 2014.